1998 ANNUAL REPORT

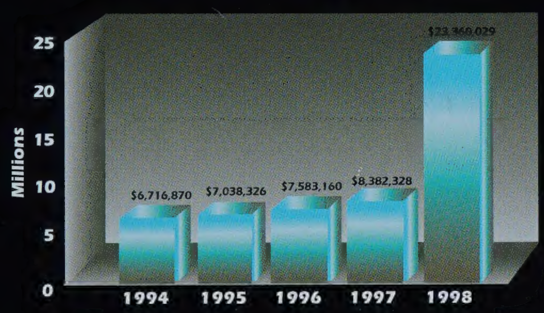
URBCO INC.

OPPORTUNITY DRIVEN

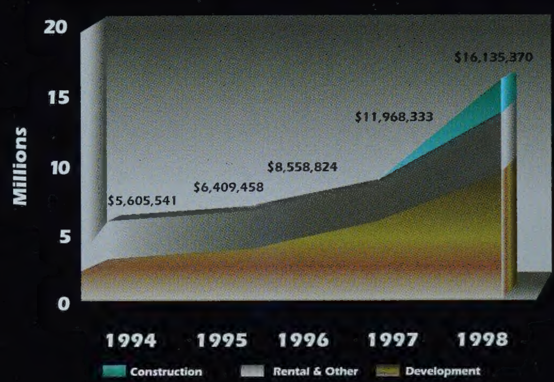
URBCO INC. FINANCIAL HIGHLIGHTS

For the Year Ending July 31	1998	1997	
Total revenues	$ 16,135,370	$ 11,968,333	+35%
Pre-tax income	$ 2,170,362	$ 1,837,870	+18%
Net earnings	$ 1,176,810	$ 1,017,850	+16%
Cash and cash equivalents	$ 3,662,664	$ 2,208,716	+66%
Shareholders' equity	$ 23,360,029	$ 8,382,328	+179%
Total assets	$ 67,120,285	$ 25,072,605	+146%
Per common share:			
Total revenues	$ 3.13	$ 2.28	+37%
Pre-tax income	$ 0.39	$ 0.35	+12%
Net earnings	$ 0.21	$ 0.19	+5%
After tax cash flow	$ 0.28	$ 0.26	+8%

Shareholder's Equity



Revenue Growth



Book Value Per Share

Pre-Tax Income

High-Low Trading Value Per Share

After-Tax Net Earnings

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Corporate Information

Corporate Office
110, 6131 - 6th Street SE
Calgary, Alberta T2H 1L9
Telephone: (403) 531-0720
Facsimile: (403) 531-0727

Officers
C. Donald Wilson, Chairman and Chief Executive Officer
B. James Britton, President and Chief Operating Officer
Kenn Harper, Vice President of Nunavut Operations
Kathleen E. McCaughey, Secretary
Gregory N. Herndier, Sr. Vice President
Barry J. Poffenroth, Sr. Vice President
Craig S. Johnson, Vice President
Jack op der Heijde, Vice President, Urbco Inc.
President Ninety North Construction & Development Ltd.

Trading Symbol
UBC: ASE

Legal Counsel
Howard Mackie

Auditor
Collins Barrow

Registrar and Transfer Agent
Montreal Trust

Annual General Meeting
Will be held in the Bonavista Room, Westin Hotel
320-4th Avenue S.W. Calgary Alberta
Wednesday December 16, 1998 3:00 p.m.

Front Cover
The Inukshuk statue on the front was an award presented to Urbco.Inc. by Profit Magazine and the Royal Bank in recognition of consistent profit growth. An Inukshuk has for generations served as a beacon that has pointed the Inuit travellers in the right direction. This statue is symbolic of Urbco Inc.'s success in identifying new and profitable real estate opportunities in Canada's north.

REPORT TO SHAREHOLDERS

Urbco Inc. has enjoyed a remarkable and profitable year - the results of which have transformed the face of the company going forward.

MERGER WITH NORTHERN GROUP OF COMPANIES

On June 30, 1998 eleven NWT real estate companies were merged into Urbco. The assets of these companies include 210 rental housing units and 73,000 square feet of commercial space tenanted mainly by Triple A customers. The properties are in 10 NWT communities with the majority being strategically located in Iqaluit, soon to become capital of the Nunavut Territory. The merger also includes one of the north's largest building contractors with a large commercial, institutional and residential customer base throughout the NWT.

The merger has strengthened Urbco in many ways. The Balance Sheet of the company has virtually doubled. The core income from the residential and commercial real estate is significant and, being relatively new, is sheltered from tax to a great extent. The cash and fee generation associated with the construction company will strengthen Urbco's bottom line and provides important diversification insofar as the business cycle in the north is not heavily dependent on the economic times in the balance of the country.

Equally important is the human capital which Urbco has secured in the merger. Four capable and highly experienced Directors have joined our Board. The organizations of the merged companies have been acquired intact. A new President and Vice President (Nunavut Operations) add their energies to the company.

We believe that this new Urbco is well positioned to grow and prosper for the benefit of all of its shareholders.

1998 HIGHLIGHTS

Urbco recorded its eighth consecutive year of increased revenue, profits and shareholder's equity. Revenue at July 31, 1998 grew to $16,135,370 an increase of 35%. Pre tax income reached $2,170,362 and after tax net income was $1,176,810. Earnings per share at year end increased to $0.21 but this is reflective only of the fact that as a result of the merger on June 30 an additional 4,258,978 shares were issued without the benefit of any significant income for the year being contributed by the merged companies. The company's land development activities in southern Alberta were the largest contributors to our results with excellent results being recorded from Pinnacle Ridge in Calgary and from Sheep River Ridge in Okotoks. The Diamond Pointe condominium development in Yellowknife was our third such project.

Urbco's diversified portfolio of rental properties in Red Deer, Calgary, Okotoks and Yellowknife continued to perform well during the year.

The fiscal results of the company were not impacted materially by the June 30 merger but certainly will be in the coming year. The charges and expenses associated with the merger were taken into our accounts without negative impact on the company's results.

OUTLOOK

The new Urbco has three commercial pillars all with very strong near and long term prospects. Our goal for the coming years is to build on our strength and diversity.

REVENUE PROPERTIES

Urbco has an ambitious program of construction underway in Iqaluit, Nunavut's burgeoning capital. The Joamie Ridge and Crystal Ridge developments consist of 81 rental townhouse units, 69 units of which are pre-leased on a long term basis to government agencies. Paunna Place is a 21,000 square foot commercial complex on the main street. Its 12 executive apartments are also leased to government and negotiations are underway with a major national corporation to be the anchor commercial tenant. These Iqaluit developments will swell our core revenue properties by $16,000,000. Terms of tenancies and low interest rates combine to produce a very handsome and long term yield to the company. Urbco is extremely well positioned to seize a window of opportunity which will exist during the next five years to provide needed rental infrastructure in both the Nunavut and the remainder of the Northwest Territories. The merger provided us with substantial well located land holdings in Iqaluit. Our strategy will be to construct on these properties as market conditions present opportunities. Urbco is also taking a major competitive position in relation to the Government of the NWT's Public Private Partnership initiative which is planned to provide needed infrastructure such as hospitals, college campuses and corrections facilities under long term operating leases.

CONSTRUCTION

Ninety North Construction and Development Ltd., Urbco's wholly owned construction subsidiary, has enjoyed substantial success in the past and is prospering in the development environment "North of Sixty". The company has been working at 100% of capacity and this will continue throughout the coming year. Ninety North will complete construction of the $9.2 million Attagoyuk school in Pangnirtung in December and has contracts in Yellowknife for the construction of two processing facilities associated with Ekati Diamond mine entering production in the fall of 1998. The largest project the company has underway presently is the Crystal/Joamie/Paunna development which is slated for completion in April of 1999.

Possessing a strong design build construction firm in our stable of companies immeasurably improves Urbco's competitive position in all northern development projects.

Notwithstanding Urbco's thrust to develop and construct new properties, Ninety North will continue to work as construction manager and general contractor for third parties thus contributing to Urbco's current year income stream. Third party work will range from 50% of Ninety North's $20m volume in years when economic conditions facilitate Urbco's new development activity and will rise to as great as 90% in years when new development is not advisable. Because Ninety North's main third party construction market in the north continues even when the southern economy falters, this will add important bottom line income in years when land sales might be in decline.

LAND DEVELOPMENT

Land development in southern Alberta will continue in 1998-99 to be the major contributor to Urbco's current year profitability. The company's focus continues to be in areas west and south of Calgary although a number of promising land plays have been identified somewhat farther afield.

From a development and sales point of view, our focal point for the coming year will be continued development of the Sheep River Ridge property in Okotoks. Okotoks has enjoyed several years of strong market activity, with the Town being identified as a lifestyle alternative to Calgary proper. Urbco's market in Okotoks has predominantly been first time and move up home buyers. It is our intention to build on this success. The Town of Okotoks has taken a decision to limit outward expansion in a effort to maintain its comfortable non-urban atmosphere. Oddly this has enhanced our short term prospects on the Sheep River property to the extent that we have 5 to 8 years of land available for development within the town.

Urbco believes that economic conditions in southern Alberta, while somewhat off their peak a few months ago, still offers good returns if we continue with our proven formula of buying land well, developing it in stages which can be readily absorbed in current market conditions and then intensively managing the development and sales process to deliver maximum bang for the buck.

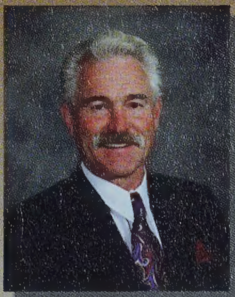
The company is embarking on a continuous process of prospecting new land development opportunities. Our credentials in developing products for markets are becoming increasingly well known and as a result increased numbers of opportunities are coming to us in our traditional market areas and beyond.

CORPORATE STRATEGY

In addition to building on our three pillars of land development , construction and revenue properties, Urbco plans to take our company to the Toronto Stock Exchange. This Board decision, made after a careful analysis of its costs and benefits is felt to be a key step in the evolution of the company. While the ASE listing has rewarded Urbco shareholders in many important ways, it is clear that to attract the capital that is necessary to fuel our growth, a listing on Canada's largest stock market is required.

The recent merger with the northern companies has shown us that a careful program of acquisition and/or merger with other corporations can enhance both the Balance Sheet of the company and its capabilities. With current stock market conditions punishing the market caps of many real estate companies (Urbco being a notable exception), we believe that an opportunity exists to acquire or merge with undervalued companies. A systematic program of seeking out these opportunities is underway.

ON BEHALF OF THE BOARD OF DIRECTORS



C. Donald Wilson,
Chairman and C.E.O.

James Britton,
President and C.O.O.

THE NUNAVUT OPPORTUNITY

The Baffin, Keewatin and Central Arctic regions have joined in a land claims settlement with the federal government. The territory over which the Inuit residents have acquired land is known as Nunavut. Effective April 1, 1999 the government and territory of Nunavut will come into existence. The establishment of Nunavut as a distinct territory under its own government fulfills a long term aspiration of the eastern and central Arctic Inuit to control their own destiny. Nunavut represents an area about 20% of Canada's land mass.

Inuit Framers working on Ninety North Project

As part of the comprehensive land claims settlement agreement numerous fiscal and socio-economic benefits are expected in this region. The investment made by various levels of government in establishing the government, the area infrastructure, housing, training and other ancillary services are expected to exceed $1 billion. Canada Mortgage and Housing Corporation estimates the number of new government and related jobs in the region will exceed 1500 once the process of self government is fully incorporated and after full infrastructure investment. The major areas of impact are expected to be Iqaluit and the Baffin Island region.

Chairman, Don Wilson and President, Jim Britton at Iqaluit airport.

Urbco Inc., as a result of the merger is well positioned to participate in the expansion of Canada's newly formed territory by providing housing and commercial space. Currently the Company has 93 housing units and 7500 sq.ft. of commercial space under construction. A total of 69 housing units have been leased to various government agencies. The leases are for a period of 15 years. One third of the commercial space has been leased to a national tenant.

Crystal Ridge townhouses under construction

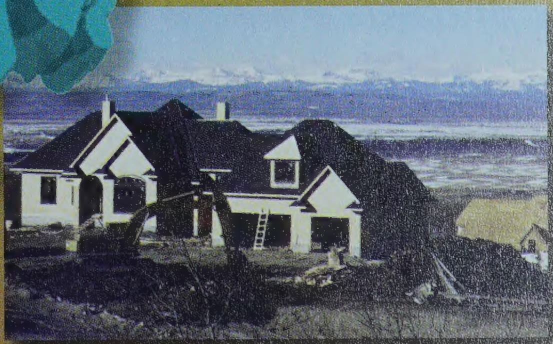
The Company has several other potential development sites under option in Iqaluit. The Iqaluit market is one of those rare instances where the demand for housing and commercial space will outstrip the supply for several years to come. The Company's activity in this emerging market is another example of its ability to source and develop properties in unique and profitable situations.

Yellowknife

CHARTING URBCO'S OPPORTUNITIES

Diamond Pointe Condominiums Yellowknife

Sheep River, Okotoks



Pinnacle Ridge, Calgary

U.G.G. Building, Okotoks

MANAGEMENT'S REPORT AND ANALYSIS

OVERVIEW

Urbco Inc. (UBC-ASE) is a Calgary based real estate development company with major holdings in Alberta and the Northwest Territories. For the eighth consecutive year the company recorded increased revenue and net income. Urbco Inc. is an "opportunity driven" company which has been very successful in identifying and developing real estate projects in diverse geographical areas.

On June 30, 1998 the Company once again demonstrated its entrepreneurial capabilities for identifying opportunities by completing a merger with Ninety North Development and Construction Ltd. ("Ninety North") and several northern real estate companies including Grinnell Properties Ltd., Sivulliik Development Corporation and 121702 Canada Ltd. The value of transaction was approximately $37.6 million and included the acquisition of 210 residential housing units and 75,000 square feet of commercial space. Most of the properties are situated in Iqaluit. Effective April 1st , 1999, Iqaluit will be made the capital of Nunavut, which is to be the newly formed territory in Canada's eastern arctic. As part of the federal government's land claims settlement with the Inuit, various levels of government will invest over $1 billion in infrastructure, training, construction, etc, and over 350 new families will require housing on April 1, 1999 or soon thereafter. The government also requires office/commercial space. This "ground floor" opportunity in Iqaluit complements Urbco Inc.'s existing Northwest Territories asset base. These companies and assets were acquired by way of the issuance of approximately 4.2 million shares of Urbco Inc., with a share issuance price of $3.30 per share and the assumption of $23.6 million in mortgage debt.

While this transaction has approximately doubled the company's assets and almost tripled shareholders' equity, of equal significance is the enhancement of Urbco Inc.'s already experienced and proven management team. Jim Britton, the President of Ninety North became Urbco Inc.'s President and Chief Operating Officer while Don Wilson, Urbco Inc.'s co-founder, President and Chief Executive Officer, became the Chairman and Chief Executive Officer. Kenn Harper of Iqaluit became Vice-President, Nunavut Operations as well as a director.

Ninety North's expertise in general contracting, design build and construction management introduces another core area of business to Urbco Inc.. The Company now focuses on three main segments of the real estate market place:

1. Residential Land Development;
2. Residential and Commercial Property Development and ownership thereof;
3. General Construction, Design Build and Construction Management of specialized real estate projects:

The Company also manages its own portfolio.

FINANCIAL PERFORMANCE

The Company increased revenues to $16,135,370 for the year ended July 31, 1998 compared to $11,968,333. This represents an increase of 35%. Net income after tax grew to $1,176,810 versus $1,017,850 in 1997, an increase of 16 %. Operating cash flow after tax increased 18% to $1,605,002 in 1998 compared to $1,365,764 in 1997.

Earnings per share increased to $0.21 in 1998 from $0.19 in 1997. Operating cash flow per share increased to $0.28 for 1998 compared to $0.26 for 1997. The per share results have been skewed slightly as the merger transaction involved the issuance on June 30, 1998 of approximately 4.2 million Urbco Inc. shares; thereby affecting the calculation of the weighted average number of shares outstanding for the year.

REVIEW OF REAL ESTATE OPERATIONS

RESIDENTIAL LAND DEVELOPMENT

The Company's land development division had another banner year as its Sheep River Ridge and Pinnacle Ridge subdivisions which were well positioned to take advantage of the buoyant Calgary and area housing market. Sheep River Ridge, located in Okotoks, is situated along the banks of the Sheep River. Since 1992, over 270 lots have been developed and sold. The Company has enough remaining land to develop another 250+ lots, many with river or mountain views. During 1998 the

Company sold a total of 69 lots at Sheep River Ridge. This generated $2,499,958 in revenue and $835,011 in operating income.

During the year the Company recorded the sale of the remaining 21 lots at its very successful country estate subdivision known as Pinnacle Ridge. This upper end project located in the Springbank area west of Calgary, contributed $2,370,093 in revenue and $761,899 in operating income during 1998.

RESIDENTIAL AND COMMERCIAL PROPERTY DEVELOPMENT

During the past three years Urbco Inc. has built three different condominium townhouse projects in Yellowknife, NWT. These projects consisting of 1200 to 1400 square foot units have proven to be very profitable. At year end the Company has 8 units remaining in its Diamond Pointe project. The company recorded $4,512,364 in condominium sales.

RESIDENTIAL AND COMMERCIAL RENTAL PORTFOLIOS

The Company's portfolio of rental properties continues to generate excellent earnings. Prior to the merger with the northern companies, Urbco's portfolio consisted of the following:

Property	Location	Occupancy at Year End
33,000sq ft multi-tennant office building	Calgary	100%
12,000sq ft office retail building.	Okotoks	United Grain Growers - 100%
58,000sq ft retail building	Yellowknife	Wal-Mart 100%
40 townhouse units	Yellowknife	94%
70 apartment units	Yellowknife	92%

Urbco Inc. has consistently demonstrated above average occupancies and attributes its success to its "hands-on" management approach. The Company's office building in Calgary is leased to 16+ tenants and is full. The Wal-Mart store lease has 13 years remaining and the lease with United Grain Growers has 17 years remaining. The company is committed to expanding its portfolio of investment properties as a way of building stable cash flow, equity and capital appreciation.

With the consummation of the merger on June 30, 1998 the Company's rental portfolio grew by approximately $37 million up from a July 31, 1997 book value of $14,061,984. The Company now owns approximately $51 million worth of rental properties consisting of 320 residential housing units and 178,000 sq. ft. of office, retail and commercial space.

Rents in Urbco Inc.'s residential housing located in Yellowknife range from $850 to $1300 per month. Rents in its Iqualuit and region properties range from $1500 per month to $2300 per month. These rents are approximately double to comparable type properties in Calgary. The company's strategy of acquiring or developing real estate in geographical areas, that are overlooked by other developers, continues to show returns far in excess of industry norms.

CONSTRUCTION ACTIVITIES

The merger with Ninety North brings an exciting and profitable "third dimension" to Urbco Inc.'s core activities. Ninety North allows the Company to better take advantage of design build situations; to provide the Company with in-house construction management; and, to become another profit centre by providing third party general contracting and construction management.

Ninety North has grown into one of the largest general contractors operating in Canada's north with an average annual volume of construction approaching $20 million. Projects currently underway include a school in Pangnirtung ($9.5 million), the Kugluktok Community Centre and Arena ($5.8 million) and newly announced the BHP Diamonds Inc. Sorting and Valuation Facility.

CAPITAL STRUCTURE AND LIQUIDITY

The following table compares the past two fiscal years:

	July 31/1997	July 31/1998	% Increase
Assets	$25,072,605	67,120,285	146%
Liabilities	$16,690,277	43,760,256	162%
Shareholder Equity	$8,382,328	23,360,029	179%
Shares outstanding	5,246,955	9,650,440*	85%
Book Value Share	$1.60	$2.42	51%

* Weighted average outstanding at year end: 5,657,204

Urbco Inc. has consistently maintained a conservative approach to the use of debt. The company's long term mortgage debt to equity ratio was 1.2:1 in 1997 and even after the merger the ratio stands at 1.9:1. At the completion of fiscal 1998 the Company's cash and deposits totalled $3.7 million with additional unused credit lines of $2.75 million.

For the fourth consecutive year the company declared a special dividend to shareholders. In 1998 the Company paid a $0.04 per share dividend on June 30, 1998.

GENERAL AND ADMINISTRATIVE

General and administrative costs, as a percentage of revenue, decreased slightly in 1998 (5.0% of revenue) compared to the previous year (6.6% of 1997 revenue).On an absolute basis general and administration increased due to costs associated with the merger. Land development general and administrative costs were 3% of lot sales revenue in 1998 and 7% of lot sales revenue in 1997. With respect to general and administrative costs for land development the Company continues to take a conservative approach relative to the real estate development industry by expensing all interest and general and administrative costs rather than capitalizing the costs to the land.

YEAR 2000 COMPLIANCE

The Company has recently completed upgrades to its hardware and software systems. Additionally, the Company evaluated its buildings systems and various business processes. The Company is of the opinion that its systems are equipped to handle the year 2000 issue and the company should not be materially affected by potential Year 2000 problems. The company will continue to review the merged companies systems and processes and make adjustments as deems necessary.

NORMAL COURSE ISSUER BID

The Company has maintained a normal course issuer bid over the past four years. Management believes that the shares of the Company have from time to time traded below their fair market value and that shares that are acquired below the FMV and cancelled benefit all shareholders. The Company is currently authorized to buy up to 100,000 shares for cancellation and has purchased and cancelled 57,300 shares as of October 22, 1998.

OUTLOOK FOR 1999

Urbco Inc. strives to generate half of its revenue from a rental portfolio and half from its development activities. These activities tend to complement each other. The rental portfolio provides "steady" cash flow while development activities provide very profitable returns on capital and earnings "bursts". During 1997 and 1998 close to 75% of the Company's revenue came from development projects and in order to redress this imbalance the Company will continue to focus on building the revenue property portfolio in the coming year. As a result of the merger, Ninety North will add a third important component to our revenue mix.

Management is very optimistic about the prospects for the coming year. The Company has 93 residential units and 7,500 square feet of commercial space under construction in Iqaluit. A total of 69 of the residential units have been leased to the federal and Nunavut governments for a period of 15 years. One third of the commercial space has been leased to a national tenant. The Company has several other sites under purchase options in anticipation of further development opportunities in the spring of 1999.

The Company remains an "opportunity driven" company. Our areas of operation include the "hot" real estate markets of Calgary and its surrounding bedroom communities and the "opportunistic" real estate markets such as Yellowknife and Iqaluit. Management will continue to search for and create profitable ventures.

AUDITORS' REPORT

To the Shareholders
Urbco Inc.

We have audited the consolidated balance sheets of Urbco Inc. as at July 31, 1998 and 1997 and the consolidated statements of income and retained earnings, cash flow from operations and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 1998 and 1997 and the results of its operations and cash flow for the years then ended in accordance with generally accepted accounting principles.

COLLINS BARROW

Collins Barrow

CHARTERED ACCOUNTANTS

Calgary, Alberta
October 5, 1998

URBCO INC.
(Incorporated under the laws of Alberta)
CONSOLIDATED BALANCE SHEETS
July 31, 1998 and 1997

		1998		1997
Assets				
Cash and term deposits	$	3,662,664	$	2,208,716
Accounts receivable		5,973,677		1,275,414
Prepaid expenses		186,651		108,732
Land held for development and sale (note 3)		4,361,220		7,078,199
Due from affiliates (note 4)		274,490		-
Investments (note 5)		669,955		300,863
Capital assets (note 6)		51,334,057		14,100,681
Goodwill (note 7)		657,571		-
	$	67,120,285	$	25,072,605
Liabilities				
Bank loans (note 8)	$	500,000	$	1,829,097
Accounts payable and accrued liabilities		8,388,726		1,387,440
Income taxes payable		113,590		108,133
Land development service costs		2,118,743		2,773,526
Mortgages (note 9)		31,543,650		9,697,452
Deferred income taxes		1,095,547		894,629
		43,760,256		16,690,277
Shareholders' Equity				
Share capital (note 10)		19,975,784		5,841,770
Retained earnings		3,384,245		2,540,558
		23,360,029		8,382,328
	$	67,120,285	$	25,072,605

Approved by the Board,

________________, Director

B. James Britton, Director

URBCO INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
YEARS ENDED JULY 31, 1998 AND 1997

		1998		1997
Revenue				
Lot sales	$	4,844,004	$	4,892,882
Condominium sales		4,452,364		3,921,639
Rental properties		4,101,545		2,730,378
Construction sales		2,498,111		-
Interest and other		239,346		278,616
Gain on disposal of land held for development		-		144,818
		16,135,370		11,968,333
Expenses				
Cost of lot sales		3,069,483		3,251,253
Cost of condominium sales		4,319,513		3,437,231
Rental properties operating		1,021,995		994,865
Cost of construction		2,483,619		-
General and administrative - land development		236,397		375,706
- construction		45,725		-
- corporate overhead		952,484		783,623
Interest on mortgages		1,426,584		1,030,875
Professional fees		88,952		43,325
Amortization		320,256		213,585
		13,965,008		10,130,463
Income before income taxes		2,170,362		1,837,870
Income taxes		993,552		820,020
Net income		1,176,810		1,017,850
Retained earnings, beginning of year		2,540,558		1,681,932
		3,717,368		2,699,782
Dividends		216,669		157,330
Normal course issuer bid (note 10[c])		116,454		1,894
Retained earnings, end of year	$	3,384,245	$	2,540,558
Earnings per share (note 10[h])	$	0.21	$	0.19

URBCO INC.

CONSOLIDATED STATEMENTS OF CASH FLOW FROM OPERATIONS

YEARS ENDED JULY 31, 1998 AND 1997

	1998	1997
Net income	$ 1,176,810	$ 1,017,850
Items not affecting cash		
Amortization	320,256	213,585
Deferred income taxes	74,360	161,937
Other	33,576	(27,608)
Cash flow from operations	$ 1,605,002	$ 1,365,764
Cash flow from operations per share (note 10[h])	$ 0.28	$ 0.26

CONSOLIDATED STATEMENTS OF CASH FLOW

YEARS ENDED JULY 31, 1998 AND 1997

	1998	1997
Operating activities		
Cash flow from operations	$ 1,605,002	$ 1,365,764
Decrease (increase) in accounts receivable	(4,273,499)	78,714
Increase in prepaid expenses	(77,919)	(1,322)
Decrease in land held for development and sale	2,716,979	1,259,829
Increase in accounts payable and accrued liabilities	7,001,286	333,102
Increase (decrease) in income taxes payable	5,457	(61,244)
Decrease in land development service costs	(654,783)	(856,701)
	6,322,523	2,118,142
Financing activities		
Repayments of bank loans, net	(1,329,097)	(188,553)
Repayments of mortgages, net	(689,371)	(197,208)
Proceeds on issuance of share capital, net of issue costs	204,133	10,500
Repurchase of shares	(241,201)	(71,852)
	(2,055,536)	(447,113)
Investing activities		
Advances to affiliates	(211,885)	-
Acquisition of investments	(23,401)	(300,000)
Proceeds on disposal of investments	26,181	121,856
Acquisition of capital assets	(2,348,282)	(331,012)
Acquisition of goodwill	(38,983)	-
	(2,596,370)	(509,156)
Distributions to shareholders		
Dividends paid	(216,669)	(157,330)
Cash inflow	1,453,948	1,004,543
Cash and term deposits, beginning of year	2,208,716	1,204,173
Cash and term deposits, end of year	$ 3,662,664	$ 2,208,716

1. BUSINESS COMBINATION

Effective April 30, 1998, pursuant to Share Purchase and Sale Agreements ("Agreements"), the company ("Urbco") acquired all of the issued and outstanding shares of Iqaluit House Limited, Grinnell Properties Ltd., Sivulliik Development Corporation, Ninety North Construction & Development Ltd., Ninety North Holdings Ltd., 892652 N.W.T. Ltd., 121702 Canada Inc., Arctic Ventures Ltd. and Development 168 Ltd., 50% of the issued and outstanding shares of Auyuittuq Building Services Ltd., 49.9% of the issued and outstanding shares of Anker Brick Pillars Ltd., and 49% of the issued and outstanding shares of Aqsaqniq / Ninety North Ltd. and Gjoa Haven / Ninety North Ltd. (all of the above companies collectively referred to as the "Acquired Companies"). The total purchase price was $31,550,997, before the assumption of $18,919,409 in outstanding debt. Urbco issued 3,827,754 common shares to the common shareholders of the Acquired Companies as consideration. The combination has been accounted for using the purchase method whereby Urbco's interest in assets acquired and liabilities assumed is accounted for in Urbco's financial statements at the cost to Urbco, and the reported income of Urbco includes the results of operations of the Acquired Companies from the date of acquisition only.

In addition, effective April 30, 1998, pursuant to Asset Purchase Agreements, Urbco acquired certain real estate assets for a total purchase price of $5,039,200, before the assumption of $3,616,160 in outstanding debt. Urbco issued 431,224 common shares as consideration.

The following details the net assets of the above transactions acquired by Urbco:

Working capital	$ 424,764
Due from affiliates	62,605
Investments	405,448
Capital assets	35,200,620
Goodwill	623,318
Mortgages	(22,535,569)
Deferred income taxes	(126,558)
	$ 14,054,628
Purchase price	
4,258,978 common shares of Urbco at $3.30 per share	$ 14,054,628
Less: Issue costs	76,367
	$ 13,978,261

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the company have been prepared in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the year necessarily involves the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) General

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, together with the company's proportionate share of the assets, liabilities, revenue and expenses of joint ventures and a partnership.

The wholly-owned subsidiaries are:

Arctic Ventures Ltd.
Chaparral Properties Inc.
Development 168 Ltd.
892652 N.W.T. Ltd.
Grinnell Properties Ltd.
Iqaluit House Limited
Ninety North Construction & Development Ltd.
Ninety North Holdings Ltd.
121702 Canada Inc.
Sivulliik Development Corporation
345045 Alberta Ltd.
Urbco Realty Inc.

The joint ventures are:

Pinnacle Ridge Joint Venture
Gjoa Haven/Ninety North Joint Venture
Aqsaqniq/Ninety North Joint Venture
Icicle/Ninety North Joint Venture

The partnership is Vista Village Limited Partnership.

(c) Revenue recognition

(i) Lot sales are recorded on closing or when a minimum of 15% of the sales price has been received and the sale is unconditional.

(ii) Condominium sales are recorded when:

(1) the sale is unconditional and full sale proceeds have been received (either in the form of cash or an irrevocable assignment of mortgage proceeds in favour of the company); and

(2) a minimum of 95% of construction is completed on the condominium unit

(iii) Construction sales are based on contracts and are recorded on the percentage of completion basis, whereby revenue and costs are recognized based on the ratio of actual cost of work performed to date to current estimated total contract costs. If a loss on the contract can be reasonably estimated, the total estimated amount of the loss will be charged to income during the year.

(d) Income taxes

Income taxes are accounted for using the deferral method of income tax allocation. Under this method, the income tax provision is based on accounting income computed at current tax rates without subsequent adjustments to reflect changes in income tax rates.

(e) Land held for development and sale

(i) Land held for development and sale is valued at the lower of cost and net realizable value.

(ii) The company capitalizes all direct costs relating to land held for development and sale other than condominiums held for sale. Indirect costs such as financing and property taxes are expensed as incurred.

(iii) Costs capitalized to condominiums held for sale include all direct costs relating to the project and all indirect costs such as financing, property taxes and general and administrative costs, as incurred.

(iv) The total estimated servicing and development costs for land development are recorded as a liability at the time development begins on a project. The total estimated servicing, development and construction costs for condominium construction are recorded as a liability at the time of substantial completion of the project or when units have been recognized as sold. The unexpended portion of these costs are shown as "land development service costs". Whenever the estimate is determined to be materially different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision with a corresponding adjustment to the cost of sales and land held for development and sale.

(f) Investments

The company records investments in marketable securities using the cost method of accounting whereby the investment is initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable.

The company uses the equity method to account for its interests in corporations in which the company owns 50% or less but over which the company has significant influence. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the company's pro-rata share of post acquisition earnings and losses. Profit distributions received in excess of the company's pro-rata share of post acquisition earnings are recorded as a reduction to the amount of the investment.

The companies which are equity accounted are:

Anker Brick Pillars Ltd.
Aqsaqniq/Ninety North Ltd.
Auyuittuq Building Services Ltd.
Gjoa Haven/Ninety North Ltd.

Where there has been a permanent decline in value, the investment will be stated at estimated net realizable value.

(g) Amortization

Amortization of buildings and fixtures is determined on the sinking fund method over the buildings' estimated remaining useful lives ranging from 33 to 40 years at anotional rate of 5% per annum.

Amortization of construction equipment and vehicles and office furniture and fixtures and equipment is determined on the declining balance method at rates of 20 to 30% per annum.

Amortization of goodwill is determined on the straight line basis over 35 years.

(h) Goodwill

The company determines whether there is a permanent impairment in value of the unamortized portion of goodwill by analyzing undiscounted cash flows and estimated fair values.

3. LAND HELD FOR DEVELOPMENT AND SALE

	1998	1997
Land held for sale		
Land and development costs	$ 1,594,748	$ 3,546,346
Land held for development		
Land	940,608	971,833
Condominiums under development and held for sale		
Land and development costs	1,825,864	2,437,118
Capitalized costs	-	122,902
	1,825,864	2,560,020
	$ 4,361,220	$ 7,078,199

4. DUE FROM AFFILIATES

Advances to affiliates are non-interest bearing, unsecured and have no stated terms of repayment. Amounts are due from corporations in which the company has investments accounted for using the equity method (note 2[f]).

5. INVESTMENTS

		1998	1997
(a)	Marketable securities at cost, (market value - $485,140 (1997 - $303,200))	$ 324,265	$ 200,863
	Shares in affiliated corporations, at equity	345,690	-
	Promissory note receivable repaid during 1998	-	100,000
		$ 669,955	$ 300,863

(b) A summary of the company's share of the assets, liabilities, and income of the affiliated corporations is as follows:

	1998	1997
Assets	$ 968,757	$ -
Liabilities	(623,067)	
Equity, end of period	$ 345,690	$ -
Share of loss included in interest and other	$ (59,757)	$ -

The company is contingently liable for the debts of the equity accounted for corporations in the aggregate amount of $800,668. Of this amount, $393,416 is included in liabilities above.

6. CAPITAL ASSETS

	1998			1997		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 2,785,561	$ -	$ 2,785,561	$ 2,040,941	$ -	$ 2,040,941
Buildings and fixtures	48,338,287	1,436,356	46,901,931	13,034.976	1,052,678	11,982,298
Buildings under development	1,268,975	-	1,268,975	-	-	-
Construction equipment and vehicles	261,268	108,550	152,718	-	-	-
Office furniture and fixtures and equipment	397,974	173,102	224,872	122,304	44,862	77,442
	$ 53,052,065	$ 1,718,008	$ 51,334,057	$ 15,198,221	$ 1,097,540	$ 14,100,681

Certain capital assets having a net book value of $12,861,532 (1997 - $2,488,656) for accounting purposes have a $NIL cost for income tax purposes.

No provision has been made in these financial statements for the additional income taxes which would be generated on the future sale of these assets.

7. GOODWILL

Cost	$ 662,301
Accumulated amortization	4,730
	$ 657,571

Goodwill having a net book value of $618,866 (1997 - $NIL) for accounting purposes has a $NIL cost for income tax purposes.

8. BANK LOANS

The company has the following bank loans and credit facilities:

(a) Demand revolving operating loan to a maximum of $800,000. The loan bears interest at a Canadian chartered bank's prime lending rate plus 0.5% per annum. As at July 31, 1998, the balance owing is $NIL (1997 - $NIL);

Demand acquisition financing loan to a maximum of $2,000,000 available for acquisition of real estate. The loan bears interest at a Canadian chartered bank's prime lending rate plus 1% per annum. As at July 31, 1998, the balance owing is $500,000 (1997 - $500,000);

Demand project loan which had a balance owing as at July 31, 1997 of $1,329,097 was repaid during 1998;

The loan facilities are secured by demand debentures totalling $5,165,000 conveying a first fixed charge against specific assets of the company and a first floating charge over other specific assets and all present and future undertakings specific to the project, a Registered General Assignment of Rents and an assignment of adequate insurance;

(b) Demand revolving line of credit to a maximum of $750,000. The facility bears interest at a Canadian chartered bank's prime lending rate plus 0.5% per annum. The facility is secured by an assignment of deposit in the amount of $100,000 (1997 - $100,000), a demand promissory note in the amount of $750,000 and a demand debenture in the amount of $1,500,000 providing a first fixed charge over land under development. As at July 31, 1998, the balance owing is $NIL (1997 - $NIL);

(c) Demand revolving operating line to a maximum of $1,000,000. The facility bears interest at a Canadian chartered bank's prime lending rate plus 0.75% per annum. The facility is secured by a general assignment of accounts receivable, guarantee from certain shareholders, postponement of claim from certain related parties, demand collateral debenture in the amount of $500,000, a first supplemental collateral debenture in the amount of $500,000 over certain buildings and a floating charge over certain other assets. As at July 31, 1998, the balance owing is $NIL (1997 - $NIL).

The company is required to meet certain financial reporting requirements and financial covenants with respect to these bank loans.

9. MORTGAGES

Mortgages bear interest at a weighted average interest rate of 8.63% (1997 - 10.86%) per annum, are repayable in blended monthly instalments aggregating $338,434 (1997 - $104,131), are secured by rental properties and are due November 1, 1998 through March 1, 2017. Anticipated repayments on the mortgages over the next five years, assuming that they are renewed at existing terms, are as follows:

1999	$ 1,552,228
2000	1,617,913
2001	1,663,700
2002	1,792,812
2003	1,533,163
Thereafter	23,383,834
	$ 31,543,650

The fair value of mortgages is approximately $36,296,264 (1997 - $11,783,449).

10. SHARE CAPITAL

(a) Authorized
Unlimited number of common voting shares
Unlimited number of non-voting, cumulative, preferred shares

(b) Issued

	1998		1997	
Common Shares	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	5,235,162	$ 5,841,770	5,258,562	$ 5,876,872
Stock options exercised	230,000	280,500	10,000	10,500
Issued on purchase of Acquired Companies (note 1)	4,258,978	13,978,261	-	-
Acquired and cancelled pursuant to normal course issuer bid (note 10[c])	(73,700)	(124,747)	(33,400)	(45,602)
Balance, end of year	9,650,440	$ 19,975,784	5,235,162	$ 5,841,770

(c) During the year, the company commenced a normal course issuer bid under which it could purchase up to 100,000 (1997 - 100,000) of its common shares until February 5, 1999 (1997 - January 26, 1998) at the market price of the shares at the time of acquisition. In total, the company acquired and cancelled 73,700 (1997 - 33,400) common shares at an average price of $3.27 (1997 - $2.15) per share during the year. The excess of cost of reacquisition over stated value of $116,454 (1997 - $1,894) was charged to retained earnings and $NIL (1997 - $24,356) was charged to contributed surplus.

(d) As at July 31, 1998, 310,000 common shares have been reserved for issuance pursuant to stock options granted to directors, former directors, officers and certain employees as follows:

Number of Common Shares	Exercise Price Per Share	Expiry Date
60,000	$ 1.05	July 18, 1999
250,000	3.00	January 20, 2003

(e) As at July 31, 1998, 72,000 common shares remain in escrow to be released July 30, 1999

(f) As at July 31, 1998, 20,000 (1997 - NIL) common shares are subject to a hold period of one year and may not be traded until January 21, 1999.

(g) Pursuant to a Pooling Agreement dated June 30, 1998, 425,899 common shares, being 10% of the shares issued pursuant to the agreements (note 1), are subject to a hold period of two years, 219,950 expiring June 30, 1999 and 212,949 expiring June 30, 2000.

(h) Earnings per share and cash flow from operations per share have been calculated based on the weighted average number of common shares outstanding during the year of 5,657,205 (1997 - 5,246,955). The exercise of stock options would not be materially dilutive.

11. INVESTMENT IN JOINT VENTURES AND PARTNERSHIPS

The company's share of assets, liabilities, revenues, expenses and cash flow from (used in) operating, financing and investing activities of joint ventures and the partnership which have been proportionately consolidated in these financial statements is as follows:

	1998	1997
Assets		
Cash and term deposits	$ 308,014	$ 636,432
Accounts receivable and prepaid expenses	7,728	260,220
Due from affiliate	60,587	-
Land held for development and sale	124,716	1,645,209
Capital assets	1,236,489	585,038
Liabilities		
Accounts payable and accrued liabilities	(102,170)	(149,490)
Land development service costs	(38,368)	(328,933)
Mortgages	(814,750)	(57,020)
Net investment	$ 782,246	$ 2,591,456

	1998	**1997**
Revenues	$ 2,539,341	$ 3,477,320
Expenses	(1,696,554)	(2,231,414)
Income before income taxes	$ 842,787	$ 1,245,906
Cash flow from operating activities, net	$ 2,241,324	$ 1,842,023
Cash flow from (used in) financing activities, net	$ (21,294)	$ 11,729
Cash flow used in investing activities, net	$ (1,857)	$ -

The company is contingently liable for obligations of the non-related venturers in the joint ventures only to the extent of the company's interest in the joint ventures. The company is joint and severally liable for obligations of its partners in the partnership; however, the assets of the partnership are available to satisfy these obligations.

The company's net investment in the proportionately consolidated partnership exceeds its cost for income tax purposes by $479,496 (1997 - $472,277).

12. RELATED PARTY TRANSACTIONS

Included in accounts receivable is $271,330 due from officers of the company relating to the purchase of lots. These loans bear interest at the rate of 3% per annum, payable annually and are secured by the lots. Principal repayments are due as follows:

1999	$ 90,497
2000	90,417
2001	90,416
	$ 271,330

13. FINANCIAL INSTRUMENTS

(a) Fair values

The fair values of all financial instruments approximate their carrying value except for marketable securities as disclosed in note 5 and mortgages as disclosed in note 9.

(b) Credit risk

The company's maximum credit risk exposure is limited to the fair value of its accounts receivable and due from affiliates.

(c) Interest rate risk
The company is exposed to interest rate cash flow risk to the extent that its bank loans and certain mortgages are at a floating rate of interest. The company is also exposed to interest rate price risk to the extent that certain mortgages are at a fixed rate of interest.

14. SEGMENTED INFORMATION

The company conducts its operations through three industry segments: rental of real estate properties, development and sale of real estate properties, and construction.

Earnings of industry segments exclude interest and other income and unallocated corporate expenses but include gains from disposition of segment assets. Inter-segment sales of $1,645,208 and the corresponding net profit of $146,901 have been eliminated. Identifiable assets are those used in the operations of the segments. Corporate assets include corporate cash and term deposits, corporate accounts receivable, corporate prepaid expenses, corporate land held for development and sale, corporate investments and corporate capital assets.

1998

	Rental of real estate properties	Development and sale of real estate properties	Construction	Corporate and Eliminations	Total
Sales	$ 4,101,545	$ 9,296,368	$ 2,498,111	$ -	$ 15,896,024
Inter-segment sales	-	-	1,645,208	(1,645,208)	-
Interest and other	103,591	76,489	(94,500)	153,766	239,346
Total revenues	4,205,136	9,372,857	4,048,819	(1,491,442)	16,135,370
Cost of sales	-	7,388,996	2,483,619	-	9,872,615
Cost of inter-segment sales	-	-	1,498,307	(1,498,307)	-
General and administrative and rental properties operating	1,021,995	236,397	45,725	1,041,436	2,345,553
Interest on mortgages	1,409,500	-	-	17,084	1,426,584
Amortization	283,818	-	17,065	19,373	320,256
Total expenses	2,715,313	7,625,393	4,044,716	(420,414)	13,965,008
Income (loss) before income taxes	1,489,823	1,747,464	4,103	(1,071,028)	2,170,362
Income taxes	-	-	-	(993,552)	(993,552)
Net income (loss)	$ 1,489,823	$ 1,747,464	$ 4,103	$ (2,064,580)	$ 1,176,810
Identifiable assets	$ 51,739,535	$ 5,569,033	$ 5,939,172	$ 3,872,545	$ 67,120,285
Acquisition of capital assets per statement of cash flow	$ 2,031,055	$ -	$ 317,227	$ -	$ 2,348,282

1997

	Rental of real estate properties	Development and sale of real estate properties	Construction	Corporate	Total
Sales	$ 2,730,378	$ 8,814,521	$ -	$ -	$11,544,899
Interest and other	-	-	-	278,616	278,616
Gain on disposal of land held for development	-	144,818	-	-	144,818
Total revenues	2,730,378	8,959,339	-	278,616	11,968,333
Cost of sales	-	6,688,484	-	-	6,688,484
General and administrative and rental properties operating	994,865	375,706	-	826,948	2,197,519
Interest on mortgages	1,030,875	-	-	-	1,030,875
Amortization	198,684	-	-	14,901	213,585
Total expenses	2,224,424	7,064,190	-	841,849	10,130,463
Income (loss) before income taxes	505,954	1,895,149	-	(563,233)	1,837,870
Income taxes	-	-	-	820,020	820,020
Net income (loss)	$ 505,954	$ 1,895,149	$ -	$ (1,383,253)	$ 1,017,850
Identifiable assets	$14,061,984	$ 7,823,533	$ -	$ 3,187,088	$ 25,072,605
Acquisition of capital assets per statement of cash flow	$ 294,287	$ -	$ -	$ 36,725	$ 331,012

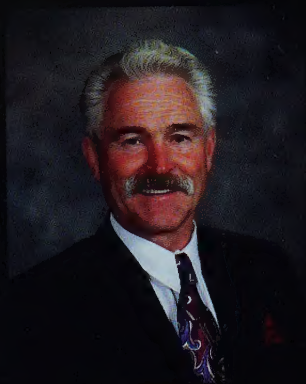
15. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced prior to, on or subsequent to January 1, 2000. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved. Therefore, a company's ability to conduct normal business operations may be impacted. This impact may range from significant system failure to minor errors. The company is taking steps to identify and remediate the problems that may arise with respect to the Year 2000 Issue.

16. COMPARATIVE FIGURES

Certain figures of the previous year have been changed to conform with the presentation adopted for the current year.

URBCO INC. BOARD OF DIRECTORS



Don Wilson
Chairman & C.E.O

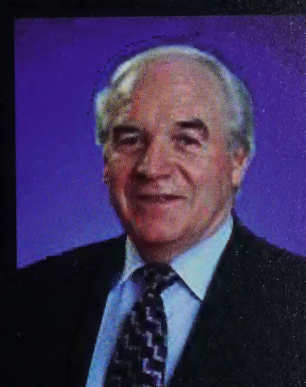
B. James Britton
President & C.O.O

Kathleen McCaughey
Director & Secretary

Kenn Harper
Director & V.P Nunavut Operations

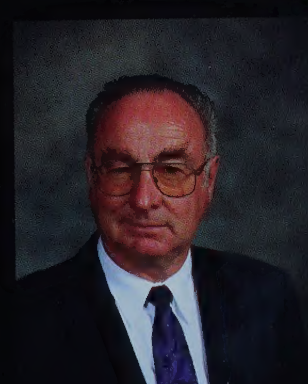
John Crichton
Director

Bob Etcheverry
Director



Doug Mitchell, Q.C.
Director

Jack Walker
Director



Roy Wilson
Director

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